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Message Text

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FM SECSTATE WASHDC
TO AMEMBASSY ABU DHABI
AMEMBASSY DOHA
AMEMBASSY MANAMA

C O N F I D E N T I A L STATE 045904

FOLLOWING CAIRO 1014 SENT ACTION SECSTATE JAN. 18; REPEATED
TO YOU QUOTE

C O N F I D E N T I A L CAIRO 1014

E.O. 11652: GDS
TAGS: EFIN
SUBJ: OUTLINE REPORT ON 1977 GOE BUDGET PRESENTATION

REF: (A) CAIRO 973 (B) CAIRO 871, (C) CAIRO 4837 - 76

1. VARIOUS DETAILS, ALTHOUGH NOT COMPLETE RUNDOWN, OF 1977
GOE BUDGET INTRODUCED INTO PEOPLES ASSEMBLY JAN. 17 (REFS A AND
B) HAVE BECOME AVAIALBLE. PRESS TERMS MEASURE AUSTERITY
BUDGET DESIGNED TO DEAL WITH ECONOMIC CRISIS, AND MANY OF ITS
PROVISIONS ASSUREDLY WILL SERIOUSLY AFFECT POCKETBOOKS OF
MOST EGYPTIANS. BUDGET PROVIDES FOR SALARY RISES IN PUBLIC
SECTOR AS SWEETENER TO BITTER PILL OF INCREASED PRICES, BUT
IS SILENT (AT LEAST IN PRESS ACCOUNTS) ON MILITARY PAY.

2. TOTAL BUDGET IS LE 7, 050 MILLION, "BALANCED" BY DEFINITION
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AS IS USUAL GOE PRACTIVE AND INCLUDING MULTIPLE TRANSFER
PAYMENTS WITHIN GOVERNMENT. (IN COMPARISON, OFFICIAL 1976
BUDGET AS PUBLISHED IN OFFICIAL JOURNAL TOTALLED LE 5, 974
MILLION --REFTEL C.) PRINTED DOCUMENT IN ARABIC IS 65 PAGES
IN LENGTH. INFORMATION SURFACING INITIALLY IN PRESS GIVES
LITTLE PRICISE INDICATION OF FUNDING SOURCES, BUT DOES NOTE
SHORTFALL OF LE 1, 526 MILLION WHICH IS COVERED FOR MOST

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PART THROUGH AVAILABILITY OF LOCAL AND FOREIGN RESOURCES.
LE 150 MILLION DEFICIT IS LEFT TO BE FINANCED BY FLOATING
NEW LOANS. PLANNED INVESTMENT FIGURE IS LE 1,335 MILLION.

3. TWO MOST REMARKABLE ASPECTS OF BUDGET AS PRESENTED TO
PA ARE (A) REDUCTION OF SUBSIDIES TO LE 276 MILLION, COMPARED
WITH APPROX. LE 515 MILLION IN 1976 AND (B) RISE OF PUBLIC
SECTOR WAGE APPROPRIATION BY 22 PERCENT OVER PREVIOUS YEAR.
GOE IN PERSON OF MINFIN MADE EXPLICIT NEED TO REDUCE "WASTE
OF ECONOMIC RESOURCES" REPRESENTED BY SUBSIDY ARRANGEMENTS.
INCREASED WAGES FOR GOVERNMENT EMPLOYEES, INCLUDING PROVISIONS
FOR OVERDUE PROMOTIONS AND HIGHER COST-OF-LIVING ALLOWANCES,
OBVIOUSLY IS INTENDED TO TAKE STING OUT OF INCREASED CONSUMER
COSTS.

4. GOE RETAINS RATIONING PROCEDURES (IN LIMITED AMOUNTS)
AND SAME CONTROLLED PRICES ON ITEMS SUCH AS SUGAR, COOKING
OIL, TEA, RICE AND CHEAPEST COTTON CLOTH. SUBSIDIZED PRICES
REMAIN AS BEFORE ON BALADI BREAD, BLACK BEANS AND PUBLIC
TRANSPORT. NUMBER OF OTHEER SUBSIDIES REPORTEDLY ARE TO BE
SCALED BACK OR ELEIMINATED, FOR CLAIMED SAVING OF LE 205 MILLION,
ALTHOUGH THIS TOTAL INCLUDES REDUCTIONS IN WORLD
PRICES OF SUBSIDIZED ITEMS, MAINLY WHEAT, WHICH ARE IMPORTED.
ONE OF MORE IMPORTANT PRODUCTS ON WHICH SUBSIDY IS BEING
REDUCED IS BUTANE GAS, PRICE OF WHICH JUMPS 50 PERCENT.
IMPLICIT SUBSIDY ON GASOLINE IS REDUCED BY INCREASE OF
PRICES BY 2.5 PIASTERS PER LITER ON SUPER AND 1.8 PIASTERS
ON REGULAR. UNRATIONED TEA AND SUGAR ARE NO LONGER TO
BE SUBSIDIZED. PRICE OF ALL BUT CHEAPEST CIGARETTEW IS
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INCREASED BY 2.0 PIASTERS.

5. IN ORDER TO MEET GOAL OF ADDED TAX AND CUSTOM REVENUES,
IMPORT DUTIES ON APPLIANCES ARE INCREASED UP TO 100 PERCENT,
DUTIES ON ALCOHOL ARE DOUBLED, VARIOUS EXCISE TAXES ARE
INCREASED ON LUXURY AND SEMI-LUXURY ITEMS, AND TAX ON PRIVATE
AUTO REGISTRATIONS DOUBLED. ADDED REVENUES ARE EXPECTED FROM
INCREASED IMPORTS VALUED FOR CUSTOMS PURPOSED AT INCENTIVE,
RATHER THAN OFFICIAL, EXCHANGE RATE.

6. DEPPRIMIN KAYSOUNI IN SPEECH OPENING BUDGET SESSION LAID
IT ON THE LINE, UNLIKE SOFT SELL OF ECONOMIC MINISTERS IN
PREVIOUS YEARS. HE RAN DOWN LIST OF PROBLEMS: LACK OF
INVESTMENTS, BOP DEFICITS, LOW PRODUCTIVITY, POPULATION RISE,
FAILURE OF EGYPT TO KEEP PACE WITH WORLD ECONOMIC DEVELOPMENT,
INFLATION AS RESULT OF INCREASED MONEY SUPPLY. DEPPRIMIN
CALLED FOR COMPREHENSIVE APPROACH TO SOLUTION OF ECONOMIC ILLS,
EMPHASIZING NEED FOR REFORMS AND PRAISING 1977 BUDGET PROPOSALS
AS MEANS TO LAY GROUNDWORK FOR FURTHER DEVELOPMENT. WE

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UNDERSTAND HIS REMARKS WERE COGENT AND WELL RECEIVED, AT
LEAST AMONG THOSE PREDISPOSED TO LIBERALIZATION OF ECONOMY.

7. MINFIN HAMID REPORTEDLY ECHOED KAYSOUNI'S SENTIMENTS IN
DETAILED PRESENTATION OF BUDGET, ALTHOUGH WE HEAR HE WAS MUCH
LESS LUCID IN HIS SPEAKING STYLE THAN DEPPRIMIN. HE WAS
PARTICULARLY CRITICAL OF LOSS OF RESOURCES BROUGHT ABOUT
BY WASTEFUL SUBSIDIES AND ABUSES OF PROGRAM, AND NOTED
GOVERNMENT CANNOT CONTINUE BORROWING TO COVER TRADE DEFICIT.

8. EMBASSY UNDERSTANDS BUDGET, NOW THAT IT HAS LANDED IN
LEGISLATURE LIKE BOMBSHELL, WILL NOT BE CONSIDERED FOR
VIRTUALLY ALL-OR-NOTHING APPROVAL BY PEOPLES ASSEMBLY UNTIL
JAN. 29. PRESUMABLY MEASURE WILL BE STUDIED IN COMMITTEE
OVER NEXT TEN DAYS, WHERE DIVERGENT VIEWS CAN BE ANTICIPATED.
BUDGET COMMITTEE IS HEADED BY FORMER MINFIN ABU ISMAIL, WHO IS
EXPECTED TO SUPPORT IT, BUT ECONOMIC COMMITTEE IS HEADED BY
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RIGHT-WINGER MUSTAPHA KAMAL MURAD, WHO ALREADY IS REPORTED TO
HAVE EXPRESSED DISSATISFACTION WITH SOME OF BUDGET'S
AUSTERITY ASPECTS, PARTICULARLY PRICE INCREASES.

9. COMMENT: SOME OBSERVERS BELIEVE THAT ANNOUNCED BUDGET
PROGRAM A BIT OF A CHARADE, DESIGNED TO GIVE IMPRESSION OF
REFORMS, AND THAT GOE IN ACTUALITY NEVER INTENDED TO INSTITUTE
PRICE RISES OF TYPES AND MAGNITUDE PROPOSED, USING VARIOUS
MECHANISMS TO ABSORB HIGHER COSTS WITHIN GOVERNMENTAL APPARATUS
INSTEAD OF PASSING THEM ALONG. THIS MAY POSSIBLY HAVE BEEN FALL BACK
POSTION IF POPULAR PROTESTS RESULTED, AS THEY APPARENTLY
HAVE, BUT SOME OF MOST OBVIOUS COSTS TO CONSUMERS, E.G., BUTANE
GAS AND GASOLINE PRICES, HAVE ALREADY BEEN INCREASED BY MINECON.
IT IS DIFFICULT TO SEE HOW GOE COULD GRACEFULLY PERFORM ABOUT
FACE ON NEW PRICE MEASURES NOW, ALMOST REGARDLESS OF REACTION
OF PEOPLES ASSEMBLY AND POPULACE, AND STILL MAINTAIN
DOMESTIC POLITICAL- AND INTERNATIONAL FINANCIAL-CREDIBILITY.
MATTHEWS UNQUOTE VANCE

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